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IN THE

Supreme Court of the United States

OCTOBER TERM, 1975

No. 75-1742

ZENTH LABORATORIES, INC.,
Petitioner,

vs.

CARTER-WALLACE, INC.,
Respondent.

**PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE
THIRD CIRCUIT**

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TABLE OF CONTENTS

	PAGE
TABLE OF AUTHORITIES	ii
CASES	ii
STATUTES	iii
RULES	iv
OTHER AUTHORITIES	iv
OPINIONS BELOW	1
JURISDICTION	2
QUESTIONS PRESENTED	2
STATEMENT OF THE CASE	2
REASONS FOR GRANTING THE WRIT	7
I—The decision of the Court of Appeals con- flicts with decisions of the Supreme Court	7
II—This petition raises questions of federal law having wide import and application and involves significant considerations of judicial administration	11
III—The decision below conflicts with the deci- sion of another Court of Appeals as to recognition of a cause of action for dam- ages based on fraud in the Patent Office	15
CONCLUSION	19

	PAGE
APPENDIX:	
A—Opinion of the United States Court of Appeals for the Third Circuit (Filed February 10, 1976)	1a
B—Oral Opinion of the United States District Court for the District of New Jersey rendered on April 14, 1975	16a
C—Judgment of the United States Court of Appeals for the Third Circuit, dated February 10, 1976	20a
D—Order of the United States Court of Appeals for the Third Circuit Denying Petition for Rehearing, dated March 4, 1976	22a

Table of Authorities

Cases Cited

Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 339 U.S. 827 (1950).....	7
Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, 402 U.S. 313 (1971).....	7-12, 15
Carter-Wallace, Inc. v. Davis-Edwards Pharmacal Corp., 443 F.2d 867 (2 Cir. 1971).....	5, 13
Carter-Wallace, Inc. v. Davis-Edwards Pharmacal Corp., 341 F. Supp. 1303 (E.D.N.Y. 1972), affirmed <i>sub. nom.</i> Carter-Wallace, Inc. v. Otte, Trustee, 474 F.2d 529 (2 Cir. 1972).....	3, 5
Corning Glass Works v. Anchor Hocking Glass Corp., 253 F. Supp. 461 (D. Del. 1966).....	17
Graham v. John Deere Co., 383 U.S. 1 (1966).....	14

	PAGE
Kraly v. National Distillers & Chem. Corp., 502 F.2d 1366 (7 Cir. 1974).....	11
Lear, Inc. v. Adkins, 395 U.S. 653 (1969).....	7-14
Nashua Corp. v. RCA Corp., 307 F. Supp. 152 (D. N.H. 1969), affirmed 431 F.2d 220 (1 Cir. 1970).....	17
Ransburg Electro-Coating Corp. v. Spiller & Spiller, Inc., 489 F.2d 974 (7 Cir. 1973).....	11
Schokbeton Prod. Corp. v. Exposaic Indus. Inc., 308 F. Supp. 1366 (N.D. Ga. 1969).....	16
SCM Corp. v. Radio Corp. of America, 318 F. Supp. 433 (S.D.N.Y. 1970).....	16
Struthers Scientific and International Corp. v. General Foods Corp., 334 F. Supp. 1329 (D. Del. 1971)	17
Troxel Mfg. Co. v. Schwinn Bicycle Co., 334 F. Supp. 1269 (W.D. Tenn. 1971), reversed 465 F.2d 1253 (6 Cir. 1972).....	10-14, 16-18
United States v. Carter Products, Inc., 211 F. Supp. 144 (S.D.N.Y. 1962).....	4
United States v. Hartford Empire Co., 73 F. Supp. 979 (D. Del. 1947).....	17, 18
Zenith Laboratories, Inc. v. Carter-Wallace, Inc., 64 F.R.D. 159 (D.N.J. 1974).....	1
Zenith Laboratories, Inc. v. Carter-Wallace, Inc., 530 F.2d 508 (3 Cir. 1976).....	1

Statutes Cited

28 U.S.C. § 1254(1)	2
35 U.S.C. § 282	9

Rule Cited	PAGE
Federal Rules of Civil Procedure 23(c)(1)	5
Other Authorities Cited	
14 Business Organizations—Patents § 709(2) 1974	18
1974 Class Action Reports, Volume III, p. 132	13
Report, National Industrial Conference Bd., "Appraising Foreign Licensing Performance" 1971	12
18 Villanova Law Review 968 (1973)	15

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Petitioner Zenith Laboratories, Inc. respectfully prays that a writ of certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Third Circuit entered in this proceeding on February 10, 1976.

Opinions Below

A copy of the opinion of the Court of Appeals, is reported at 530 F.2d 508 (3 Cir. 1976), and is found at

Appendix A hereto. The decision of the United States District Court for the District of New Jersey consists of an unreported oral opinion. A copy of the transcript containing this opinion is annexed as Appendix B hereto.¹

Jurisdiction

The judgment of the Court of Appeals for the Third Circuit was entered on February 10, 1976. A timely petition for rehearing and rehearing in banc was denied on March 4, 1976, and this petition for certiorari is being filed within 90 days of that date. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

Questions Presented

1. Whether the invalidity of a patent requires the patent holder to repay all sums derived from the existence of the patent.
2. Whether the procurement of a patent through fraud in the Patent Office requires the patent holder to repay all sums derived from the existence of the patent.

Statement of the Case

On February 18, 1972, in its final year of life, the much-litigated patent of Respondent Carter-Wallace, Inc. ("Carter") on the drug generically known as meproba-

¹ A prior reported decision of the District Court dealing with decertification of this matter as a class action is found at 64 F.R.D. 159 (D.N.J. 1974).

mate was finally declared invalid on the ground of obviousness. *Carter-Wallace, Inc. v. Davis-Edwards Pharmaceutical Corp.*, 341 F. Supp. 1303 (E.D.N.Y.), affirmed *sub nom.*, *Carter-Wallace, Inc. v. Otte, Trustee*, 474 F. 2d 529 (2 Cir. 1972). Seven days later, on February 25, 1972, Petitioner Zenith Laboratories, Inc. ("Zenith"), a generic drug manufacturer which had purchased bulk meprobamate powder from Carter under this invalid patent and processed the bulk powder into finished tablet form, instituted a class action in the United States District Court for the District of New Jersey seeking repayment on its own behalf and on behalf of all others similarly situated, of all sums derived by Carter which were attributable to the patent. Jurisdiction was predicated upon diversity of citizenship.

Damages sought were calculated based on the difference between the approximate \$3 per pound world market price for bulk meprobamate and the average \$20 per pound sum which Carter was able to extract from domestic concerns by reason of its invalid patent. Based on its purchase of about 65,000 pounds of bulk meprobamate powder from Carter, Zenith claimed damages of \$1.1 million on its own behalf. Moreover, based on Carter's figure of \$160,000,000 gross sales of bulk meprobamate during the 17-year life of the patent, Zenith's class action suit sought similar damages in the total amount of \$130,000,000 on behalf of all other drug manufacturers which had purchased bulk meprobamate from Carter under the invalid patent.

The meprobamate patent, which had generated \$130,000,000 in excess revenues for Carter, was obtained by Carter in the names of Berger and Ludwig in 1955, pursuant to a continuation-in-part patent application filed on August 3, 1953. The patentees, employees of Carter's

predecessor (Carter Products, Inc.), had assigned the patent to the predecessor company. After the assignment of the meproamate patent, Carter entered into an exclusive licensing agreement with American Home Products Corp. ("American Home") to sell it bulk meproamate to be marketed in final dosage form only under its trade name "Equanil" in competition with Carter's "Miltown" product. Carter also entered into separate license agreements with American Cyanamid Co. and Merck & Co. in this period to sell them bulk meproamate limited to use in certain combination drug products manufactured by those companies in return for reciprocal licenses to Carter.

The exclusive license arrangement with American Home led to the institution of a Government antitrust suit against Carter and American Home in 1960, which was resolved by a Consent Judgment entered over the objection of American Home in 1962. *United States v. Carter Products, Inc.*, 211 F. Supp. 144 (S.D.N.Y. 1962). As a result, the license agreement by Carter with American Home was declared invalid.² More importantly, pursuant to the terms of the Consent Judgment, Carter was required to sell licensed bulk meproamate to all qualified pharmaceutical houses.

Zenith and the other drug manufacturers thereafter began purchasing meproamate powder from Carter pursuant to the terms of a standard form "Confirmation of Sale". This document contained provisions typical of licensing agreements requiring the purchasers thereunder to label their finished products with Carter's patent number and to recognize Carter's full right to exercise its

² The American Cyanamid and Merck agreements were not affected by this Consent Judgment.

patent to prevent the sale or importation of non-Carter meproamate. As such, each purchaser from Carter was the equivalent of a licensee under the meproamate patent.

In October 1967, Zenith determined that the meproamate patent was invalid and unenforceable, and began purchasing bulk meproamate powder on the world market at the much lower price there available. A patent infringement suit was instituted against Zenith by Carter in July 1968 and was still pending when, on February 18, 1972, the meproamate patent was declared invalid in the *Davis-Edwards* case, leading to the institution of the present suit.

After the appellate processes in the *Davis-Edwards* case were completed, Zenith moved to have the instant suit certified as a class action under F.R.Civ.P. 23(c)(1). This motion was granted by Hon. Lawrence A. Whipple as to 39 concerns which had purchased more than \$10,000 worth of meproamate from Carter during the period of the patent's life.

Subsequently, in accordance with matters developed in the record of the *Davis-Edwards* litigation, some of which were specifically set forth by Judge Friendly in a prior opinion in the United States Court of Appeals for the Second Circuit in *Carter-Wallace, Inc. v. Davis-Edwards Pharmacal Corp.*, 443 F.2d 867, 883 (2 Cir. 1971), Zenith amended its Complaint to add a detailed count seeking return of the payments derived by Carter from the meproamate patent on the ground that the patent was obtained by fraud in the Patent Office. In addition, Zenith set forth separately in its Amended Complaint counts predicated respectively on unjust enrichment, failure of consideration and mistake of material fact. However, after the motion to allow these additional counts was

granted, Judge Whipple's ruling as to class certification was reversed by the Hon. Herbert J. Stern, to whom the case had been reassigned.³

Thereafter, Carter moved and Zenith cross-moved for summary judgment, except as to the count based on fraud in the Patent Office, which cause of action was predicated on facts to be proved. On April 14, 1975, Judge Stern granted Carter's motion solely on the ground that Zenith's claims for damages based on an invalid or fraudulently obtained patent were not available to a purchaser, but only to a licensee. Finding Zenith not to be a licensee but a mere purchaser, the District Court ordered the dismissal of the action.

Zenith promptly appealed, pointing out to the Court of Appeals that, under the circumstances of this case, Zenith was the equivalent of a licensee. The Court of Appeals avoided this issue by determining on public policy grounds that a patentee should not be required to repay sums obtained by means of an invalid or even a fraudulently obtained patent. Believing this decision to be clearly inconsistent with previous decisions of this Court and manifestly contrary to public policy, and (as to the fraud count) in conflict with a decision of the Court of Appeals for the Sixth Circuit, Zenith respectfully petitions this Court for a writ of certiorari.

³ This decision was based on the Court's finding that Zenith was not a licensee, but only a purchaser from Carter, and therefore was held not to be in a position to serve as typical representative of a class consisting of both licensees (American Cyanamid being the only remaining licensee) and purchasers (all the other concerns which purchased meproamate from Carter). Zenith appealed the question of class representation to the Court of Appeals which affirmed the decision of Judge Stern, albeit on the different ground that Zenith may have been subject to certain affirmative defenses which impaired its ability to serve as class representative.

REASONS FOR GRANTING THE WRIT

I. The decision of the Court of Appeals conflicts with decisions of the Supreme Court.

In its landmark patent law decisions, *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), and *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1971), the Supreme Court gave new direction to legal principles which had theretofore strongly favored the holders of invalid patents. Thus, in *Lear, Inc. v. Adkins*, emphasizing "the strong federal policy favoring free competition of ideas which do not merit patent protection" (395 U.S. at p. 656), the Court squarely struck down the rule of licensee estoppel recognized in *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 836 (1950). Thereafter, the acceptance of a license under a patent would not preclude the licensee from later attacking the patent. Moreover, in so ruling, the Court also permitted the licensee to "avoid" payments sought pursuant to the license agreement by the holder of an invalid patent.

More specifically, with regard to this latter ruling and in order to effectuate the policy permitting free use of unpatentable ideas, this Court held that the licensee in *Lear* was entitled to avoid payments of all royalties which had allegedly accrued *since the date of issue of the patent*. Explaining its decision, this Court went on to state (at 395 U.S. 673):

"It seems to us that such a requirement [to pay such royalties] would be inconsistent with the aims of federal patent policy. Enforcing this contractual [⁴] provision would give the licensor an addi-

⁴ The claim for payment of accrued royalties in *Lear* was sought pursuant to a contractual provision requiring their payment pending the outcome of infringement litigation. In this case, Carter does not even have the benefit of such a provision.

tional economic incentive to devise every conceivable dilatory tactic in an effort to postpone the day of final judicial reckoning. We can perceive no reason to encourage dilatory court tactics in this way. Moreover, the cost of prosecuting slow-moving trial proceedings and defending an inevitable appeal might well deter many licensees from attempting to prove patent invalidity in the courts."

Under the holding in the instant case, a patentee has similar incentive to delay the institution of proceedings as well as the result thereof so as to maximize royalties.

To be sure, in *Lear*, the royalties sought had been permitted by the patentee to accrue. In this case, the moneys derived from the patent were in fact paid over to Carter pursuant to an excessive purchase price. There is no reason, however, why the policy which this Court set forth in *Lear* should not apply merely because the *Lear* royalties had accrued whereas here the moneys at stake were paid to Carter as excessive consideration for obtaining the unlawfully patented product.

The policies favoring free exchange of unpatentable ideas and prompt litigation as to questionable patents, as expounded in *Lear*, were further amplified in *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1971), where, reshaping another entrenched doctrine of patent law, this Court abrogated the rule of mutuality of estoppel in patent litigation. As a result, a holding of patent invalidity in one suit will now bar a subsequent suit by the patentee against a second alleged infringer of the patent.

In so deciding, this Court pointed out that there is normally vast inequality between parties to a patent in-

fringement suit which results from both the statutory presumption of patent invalidity set forth in 35 U.S.C. § 282 and the prohibitive costs of litigation challenging a patent. In this vein, quoting at length from the remarks of a member of the President's Commission on the Patent System, this Court found that the expensive prospect of patent litigation can serve as a formidable tool in perpetuating the disparity between a large-scale patentee and a small, fledgling business. See discussion in 402 U.S. at pp. 340-50. Thus, the Court found it altogether likely that a party confronted with an illegal patent would be forced to choose between paying royalties (which the Court expressly found to be "an unjust increment" to the patentee) rather than accepting "the costly burden of challenging the patent." Of course, the patentee is able to utilize this "unjust increment" to fund the very litigation so deplored by the Court.

Although recognizing that the principal holding of the *Lear* decision as to licensee estoppel (permitting a licensee later to challenge the patent) somewhat ameliorated this dilemma, this aspect of *Lear* was regarded by the Court to be an incomplete answer to the staggering problems which confront a business desiring to market a product which it believes is invalidly patented. As such, the abrogation of the rule of mutuality of estoppel in *Blonder-Tongue* was an attempt to ameliorate further these harsh circumstances by sparing licensees (and, of course, the federal courts) the expense and delay of re-litigating the validity of a patent which had been previously declared invalid in a suit involving another party. As has been pointed out, however, consistent with the additional holding in *Lear* that a patentee is not entitled to moneys derived from an invalid patent, the *Blonder-Tongue* decision also was intended to provide a method of saving for licen-

sees the "unjust increment" (i.e., royalties) which licensees under an invalid patent are coerced to pay under the threat of litigation.

Of course, *Blonder-Tongue* is not at all helpful until invalidity has been determined. For example, in this case, for many years prior to the holding of invalidity of the meproamate patent in 1972 (the seventeenth year of its existence), Carter brought numerous complex and expensive lawsuits against alleged infringers. Able to rely on the presumption of validity and to draw on the vast sums it had received for its past sales of bulk meproamate as well as the significant sums it was still receiving from those economically weak firms intimidated by the patent into continuing to purchase its drug, Carter maintained clear and unconscionable advantages which the *Blonder-Tongue* ruling was helpless to prevent.

Thus, in order to effectuate the salutary policies set forth in *Lear* and *Blonder-Tongue*, this Court should grant certiorari to overrule the decision of the Court of Appeals and clearly recognize the right of Zenith to recover the moneys which it paid to Carter because of the patent. Of course, in so doing, this Court would be merely giving effect (in the context of this case) to the holding of *Lear* (at p. 674) that all royalty payments accruing from the date of patent issuance may be avoided by a party such as Zenith.

The importance for certiorari jurisdiction to be exercised by the Court in this case is further underscored by the fact that two other Courts of Appeals have failed to follow the *Lear* and *Blonder-Tongue* decisions, and refused to allow recovery of payments derived on the basis of invalid patents. See *Troxel Mfg. Co. v. Schwinn Bicycle*

Co., 465 F.2d 1253 (6 Cir. 1972)⁵; *Kraly v. National Distillers & Chem. Corp.*, 502 F.2d 1366 (7 Cir. 1974); *Ransburg Electro-Coating Corp. v. Spiller & Spiller Inc.*, 489 F.2d 974 (7 Cir. 1973). Since the relief here sought is a natural extension of the holding of this Court in *Lear*, it is critically important that the Court accept review of this matter so as to clarify the serious misunderstanding by these Courts of Appeals of the *Lear* and *Blonder-Tongue* decisions.

II. This Petition raises questions of federal law having wide import and application and involves significant considerations of judicial administration.

Since the *Lear* decision, which the aforementioned Courts of Appeals have determined not to authorize the causes of action set forth herein, there have been no decisions by this Court dealing with the rights of a licensee such as Zenith to recover payments made on account of an invalid or fraudulently obtained patent. This Court's considera-

⁵ The decision of the Court of Appeals for the Sixth Circuit in *Troxel*, reversing the District Court ruling against the holder of an invalid patent (334 F. Supp. 1269 (W.D. Tenn. 1971)), is generally conceded to be the principal Court of Appeals opinion in this area, and was fully adopted by the Court of Appeals for the Third Circuit in the case at bar. In its decision, the *Troxel* Court erroneously determined that *Lear* does not mean what it plainly says with regard to the right of a licensee to avoid all payments since the patent's issuance. The Court went on to hold (incorrectly) that the policy supporting the early prosecution of patent invalidity suits would be defeated by permitting licensees to sue for repayment of past royalties. In addition, the Court believed that on balance it would be unfair to patentees and harmful to the patent system to require patentees to remain subject to suits for repayment of royalties during the entire life of the patent. These arguments are discussed *infra*.

tion of this issue is necessary to resolve a significant matter affecting our technological society, and to help reduce the volume of litigation confronting the federal courts.

In this suit, the members of the class which Zenith represented have claims totaling approximately \$130 million. In addition, based on the fact that \$786 million in royalties and license fees were paid just by foreign licensees to domestic firms in 1970 (*Report, National Industrial Conference Bd.*, "Appraising Foreign Licensing Performance" 1971), it is evident that a decision in this case would affect the rights to billions of dollars paid annually based on the existence of patents granted by the U. S. Patent Office.

Apart from the vast sums of money affected, this case also involves critical questions of patent law policy. In this respect, the Courts of Appeals in *Troxel* and in this case have incorrectly held that the elimination of the doctrines of licensee estoppel and mutuality of estoppel by this Court in *Lear* and *Blonder-Tongue* respectively afford sufficient protection to a person seeking protection from an invalid or fraudulent patent. For the following reasons, Zenith requests that this Court, consistent with these two opinions, also allow recovery of moneys obtained by means of an invalid or fraudulently procured patent.

In essence, the Court of Appeals has assumed erroneously that recognition of such a cause of action would induce licensees or like parties to withhold litigation until the last years of an invalid patent's life, thus frustrating the goal of prompt disposition of litigation. However, it is inconceivable that any reasonable business firm would determine to pay exorbitant sums of money (such as the \$1,100,000 paid by Zenith) over the life of a patent

on the gamble that the patent might be declared invalid in its last years, thereby entitling the licensee to the return of that money. Clearly, any rational businessman would far prefer to avoid paying such sums and would take advantage of the first opportunity he could afford to cease making such payments and bring suit attacking the patent and seeking to recoup moneys previously paid. Indeed, the failure to recognize the cause of action here alleged would encourage patentees to engage in "every conceivable dilatory tactic" to avoid the institution of suit. *Lear, Inc. v. Adkins*, *supra*, at p. 673.

It was also claimed in *Troxel* and by Carter in this case that the recognition of the claim for past moneys paid would cause economic calamity by requiring a patentee to escrow all royalties for the term of the patent. But this argument incorrectly assumes that suits for recoupment of royalties will not be brought as soon as possible. Moreover, whatever economic dislocation might be caused immediately after a ruling in favor of Zenith could and, no doubt, would be promptly remedied by a lowering of the unconscionably high royalty rates which firms such as Carter are able to charge. The savings derived by licensees could in turn be devoted to research and the development of competitive businesses.

Additionally, the relief sought herein would have the obvious beneficial effect of alleviating the serious abuse of the patent system which is evidenced by the appalling fact that in one recent period (notwithstanding the statutory presumption of validity) 72% of all patents challenged in the Courts were invalidated. 1974 *Class Action Reports*, Vol. III, p. 132.⁶ This Court is well aware that

⁶ See also *Carter-Wallace v. Davis-Edwards, Inc.*, *supra*, 443 F.2d at p. 872, where Judge Friendly stated (nearly two years after *Lear*) that:

"[T]he bald fact is that *more than 80%* of patent infringement actions on appeal result in a determination that the patent sued upon is invalid." [Emphasis supplied.]

proceedings in the Patent Office are secret and *ex parte* in nature. As such, unless an interference is declared, no outside party has an opportunity to challenge the patent grant until after it occurs and after the statutory presumption of validity attaches to the patent.

As demonstrated by the statistics just cited, the patent system in the United States has led to application for, and the resultant granting of, numerous invalid patents. Apart from the burden placed on the patent office by patentees encouraged to make meritless or marginal applications,⁷ the federal court system is being severely taxed by numerous patent infringement suits and declaratory judgment actions for invalidity. A fair way to improve this difficult situation would be to allow prosecution of the kind of cause of action that Zenith here asserts. Surely, any increase in damage suits would be more than offset by a reduction in the number of patent infringement and declaratory judgment suits, after the screening out of meritless or marginal applications by patent applicants faced with the possibility of some day being required to return unjustly received royalties.

In this regard, strongly criticizing the Court of Appeals' opinion in *Troxel*, and characterizing it as an unfortunate deviation from the spirit of *Lear*, one commentator has stated:

"This overview of the problem [as stated by the Court of Appeals in *Troxel*] is overly sympathetic to the position of the patentee. Due to the uncertainty of judicial acceptance of a particular patent,

⁷ Criticizing the liberal standards utilized by the Patent Office in granting patents, this Court pointed out in *Graham v. John Deere Co.*, 383 U.S. 1, 18 (1966), that as of 1965 the Patent Office was receiving over 100,000 applications annually.

blind reliance on a Patent Office issuance may not be justified or reasonable. Therefore, to require a patentee to defend the validity of a patent—and base his right to royalties on the result—does not appear inequitable, and *might well have a beneficial 'tightening' effect on the operation of the patent system.* Additionally, the argument for justified reliance on the pronouncement of the Patent Office works both ways. The circuit court decision would have the incongruous result of penalizing a licensee for assuming the validity of a patent, while excusing the patentee himself." Note, 18 Villanova L. Rev., 968, 975 (1973). (Emphasis supplied.)

Finally, this Court should take cognizance of the basic injustice which flows from a patent system whereunder a patentee is permitted to utilize the proceeds from an invalid patent to enrich itself at the expense of others, usually potential competitors. Indeed, this Court has already observed in *Blonder-Tongue* that the royalty proceeds from such patents represent an "unjust increment" to the patentee. In this regard, it is even more disturbing that a patentee should be able to retain moneys received as a result of a patent obtained by fraud in the Patent Office.

III. The decision below conflicts with the decision of another Court of Appeals as to recognition of a cause of action for damages based on fraud in the Patent Office.

In its decision in this case, the United States Court of Appeals for the Third Circuit refused to recognize Zenith's cause of action for return of the sums which Carter exacted by reason of a patent obtained by fraud in the

Patent Office. In so holding, the Court below is in conflict with the clear statement of the Court of Appeals for the Sixth Circuit in *Troxel* that a patentee is to be held "responsible" for the issuance of a patent procured by "fraud or misconduct". *Troxel, supra*, 465 F.2d at p. 1259. This statement was further explained in footnote 6 on the same page, where the Court in *Troxel* stated:

"It has been held, without reliance on *Lear*, that a licensee is entitled to recoupment of royalties paid when the licensed patent was procured fraudulently. See *Nashua Corp. v. RCA Corp.*, 431 F.2d 220, 227 (1st Cir. 1970); *SCM Corp. v. Radio Corp. of America*, 318 F. Supp. 433, 470-472 (S.D.N.Y. 1970); *Schokbeton Prod. Corp. v. Exposaic Indus. Inc.*, 308 F. Supp. 1366 (N.D. Ga. 1969)." (Emphasis supplied.)

Although the above quoted language appears to contain no ambiguities which might give rise to the need for further examination, the Court of Appeals for the Third Circuit nevertheless attempted to distinguish this self-evident holding by discussing one of the District Court opinions referred to therein. In this respect, the Court claimed that *SCM Corp. v. Radio Corporation of America* stood only for the proposition that royalties must be repaid only where the patentee practices fraud in inducing another to enter into the licensing agreement. But the Court in *Troxel* did not choose to read this opinion so restrictively. Moreover, there is no consideration given by the Court below to the obvious fact that Carter knowingly held out its improperly obtained patent as valid, thereby inducing Zenith and others to enter into agreements to pay the excessively high price which Carter demanded.

The Court in *Troxel* also relied on *Nashua Corp. v. RCA Corp.*, 307 F. Supp. 152 (D.N.H. 1969), affirmed 431 F.2d 220 (1 Cir. 1970), on the issue of fraud. The Court of Appeals for the Third Circuit attempted to distinguish that case by stating that no fraud was found by the District Court and that the fraud issue was never considered by the Court of Appeals. However, in reaching the conclusion that no such fraud was proved, the District Court clearly recognized a cause of action for return of royalties based on fraud in the Patent Office. 307 F. Supp. at p. 158. Significantly, in reviewing that matter, the Court of Appeals did not question the existence of such a cause of action.

The Court below also attempted to distinguish two cases, not cited by the Court in *Troxel*, which Zenith brought to the Court's attention in support of its cause of action based on fraud. They are *Struthers Scientific and International Corp. v. General Foods Corp.*, 334 F. Supp. 1329 (D. Del. 1971), and *Corning Glass Works v. Anchor Hocking Glass Corp.*, 253 F. Supp. 461 (D. Del. 1966). The argument of the Court below was that the causes of action in these cases sounded in unfair competition in that they alleged that a fraudulently procured patent had prevented the marketing of a similar product. In this case, the fraudulently procured patent analogously prevented the marketing of an identical drug, which was available at a lower price from other sources. The differences between the claims in the cited cases and the case at bar are clearly not material.

Finally, in footnote 16 of its opinion, notwithstanding its decision to the contrary, the Court below expressly recognized that a licensee can recover royalties on an unjust enrichment theory where the Government has cancelled a patent *ab initio*. *United States v. Hartford Em-*

pire, 73 F. Supp. 979 (D. Del. 1947); 14 *Business Organizations—Patents* § 709[2] 1974. In *Hartford-Empire*, the Court held (at p. 981):

“Those who have paid [the patentee] defendant money for royalties or damages as infringers should be in a position to demand the status quo; otherwise defendant will be unjustly enriched.”

The only difference between this holding and the instant case is that in the earlier decision a declaration that the patent was void for fraud was sought by the Government, whereas in this case a civil litigant seeks return of the status quo by demonstrating the fraudulent conduct of the patentee. There is no basis for a meaningful distinction between the *Hartford-Empire* case and the instant action on this point.

Thus, the Court of Appeals for the Third Circuit has issued an opinion in this case which clearly conflicts with the opinion of the Court of Appeals for the Sixth Circuit in *Troxel*. In reaching this conflicting result, the Court below has misconstrued and failed to apply the relevant precedent. For these reasons, this Court should exercise its certiorari powers to review and resolve this conflict between the Circuits, and reverse the erroneous decision of the Court of Appeals below.

CONCLUSION

For the reasons stated, it is respectfully requested that this petition for a writ of certiorari should be granted to review the judgment and opinion below of the United States Court of Appeals for the Third Circuit in this matter.

Respectfully submitted,

DAVID R. SIMON
Attorney for Petitioner

SIMON & ALLEN,
JAMES M. CUTLER,
On the Petition.

[APPENDICES FOLLOW]

APPENDIX A

**Opinion of the United States Court of Appeals for the
Third Circuit**

(Filed—February 10, 1976)

**UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT**

No. 75-1570

ZENITH LABORATORIES, INC., on behalf of itself and
all others similarly situated

v.

CARTER-WALLACE, INC.,
Zenith Laboratories, Inc., Appellant

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE
DISTRICT OF NEW JERSEY

D.C. Civil Action No. 368-72

Argued November 18, 1975
Before VAN DUSEN, ADAMS and ROSENN, *Circuit Judges*

[1a]

Appendix A

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ROSENN, *Circuit Judge*

The question raised by this appeal, whether a licensee or purchaser from a patentee may recover excess payments attributable to a patent subsequently declared invalid, is one of first impression in this court.¹ Zenith Laboratories, Inc. (Zenith), a bulk purchaser of a patented drug, sued the patentee, Carter-Wallace, Inc. (Carter), in the United States District Court for the District of New Jersey² for recovery of \$130 million in excess

¹ A related question, the liability of a licensee for royalties which it did not pay before the underlying patent was declared invalid, was noted but not decided by this court in *American Sterilizer Corp. v. Sybron Corp.*, F.2d n.10 (3d Cir. 1975).

² Jurisdiction was asserted under 28 U.S.C. § 1332 (1971) as Zenith is a New Jersey corporation with its principal place of business in New Jersey, Carter is a Delaware corporation with its principal place of business in New York, and the amount in controversy exceeds \$10,000.

Appendix A

payments allegedly made by a class of licensees and purchasers from Carter. Zenith appeals from a grant of summary judgment in favor of Carter. We affirm the judgment of the district court.

I.

Carter was granted a patent on the drug meprobamate in 1955 and immediately entered into license agreements with three companies.³ One of these agreements became the subject of an antitrust suit by the Government in *United States v. Carter Products, Inc.*, 211 F. Supp. 144 (S.D. N.Y. 1962). Pursuant to the consent decree entered in that case, Carter began selling bulk meprobamate on non-discriminatory terms under a price ceiling to "qualified pharmaceutical houses" as specifically defined by it in its "confirmation of sale." Zenith and ninety-two other pharmaceutical houses purchased meprobamate under terms set forth in the confirmation of sale.

Zenith, however, claims that Carter's prices for meprobamate were so exorbitant compared to prices prevailing on the world market that Zenith soon began to buy bulk meprobamate abroad. In response, Carter filed a

³ They were American Home Products Corp., Lederle Division of American Cyanamid, and Merck & Co. The last two companies purchased the drug from Carter and used it in combination drugs specified by their agreements with Carter. American Home Products was the only licensee authorized to sell meprobamate in consumable form without first combining it with other drugs. However, it was not licensed to manufacture the bulk powder; Carter remained the sole manufacturer of the drug. American Home was prohibited from reselling the bulk powder and was restricted to sales in tablet form.

Appendix A

patent infringement suit against Zenith, which Zenith defended by asserting *inter alia* that Carter's patent was invalid, that Carter had consented to Zenith's manufacture, use, and sale of meprobamate, and that Carter was in violation of federal antitrust laws by misuse of its patent. Zenith also set forth a three-count counterclaim based on Carter's alleged violations of Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1 and 2 (1971) as follows: (1) price-fixing and monopoly of the manufacture, distribution, and sale of meprobamate beyond the scope of the patent; (2) a combination and conspiracy with Lederle to restrain trade and to tie an unpatented product to a patented one; and (3) a combination and conspiracy with Merck to restrain trade and to pool patents.

While the infringement suit against Zenith was pending, Carter's meprobamate patent was held invalid on the basis of obviousness in an unrelated case, *Carter-Wallace, Inc. v. Davis-Edwards Pharmacal Corp.*, 341 F. Supp. 1303 (E.D. N.Y. 1972), *aff'd sub nom, Carter-Wallace, Inc. v. Otte*, 474 F.2d 529 (2d Cir. 1973). Carter's claim in this action was therefore dismissed, leaving only Zenith's counterclaim still before the court. Counts I and III of the counterclaim were voluntarily abandoned by Zenith, and an order of dismissal with prejudice was entered, specifying that "this Order does not operate as a determination of this matter on the merits." Zenith also agreed to settle Count II and released its claims thereunder.⁴

⁴ Zenith agreed to release Carter from the following:

... any and all claims asserted in the Second Count of the Amended Answer and Counterclaim in [the infringement

(Footnote continued on following page)

Appendix A

Before settlement of Count II, Zenith initiated the present suit in the United States District Court for the District of New Jersey against Carter on behalf of purchasers of meprobamate to recover "all royalties (i.e., amounts attributable to the existence of the patent)" paid to Carter since the patent issued in 1955. Judge Whipple certified the class pursuant to Fed. R. Civ. P. 23(c)(1).

Zenith's original complaint contained one count and was based upon *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, 334 F. Supp. 1269 (D. Tenn. 1971).⁵ It alleged the right to recover excess payments without elaborating the theory on which it grounded its action.⁶ The district

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suit], including any and all claims it has asserted or could have asserted in said Second Count against Carter or Hoyt under Section 2 of the Clayton Act (15 U.S.C. § 13), provided, however, that nothing herein shall affect the claims now pending in the [case sub judice], provided, further, that Zenith agrees that it *does not* and *will not assert* any claims in [the case sub judice] that *have herein been released*. [Emphasis supplied.]

⁵ *Rev'd*, 465 F.2d 1253 (6th Cir. 1972), *app. on remand*, 489 F.2d 968 (6th Cir. 1973), *cert. denied*, 416 U.S. 939 (1974). Zenith admits as much in its brief to this court.

⁶ The complaint averred:

By reason of the invalidity of Defendant Carter's meprobamate patent, Plaintiff Zenith and the members of the class represented by Plaintiff are entitled to recover the payments made to Defendant for the use of its invalid patent in the purchase of licensed bulk meprobamate powder from Defendant during the period from 1955 to 1972, estimated at \$130 million.

Appendix A

court in *Troxel* had awarded to a licensee royalties paid under an invalid patent purportedly applying the federal patent policy articulated in *Lear v. Adkins*, 395 U.S. 653 (1969).

After the Court of Appeals for the Sixth Circuit reversed the district court decision in *Troxel*, Zenith amended its complaint in order not to rely exclusively upon the overruled holding. It added three counts which listed equitable theories of recovery.⁷ In addition, Zenith set forth an entirely new cause of action for fraud on the Patent Office, apparently seeking to fit within the exception for recovery of payments made under a fraudulently obtained patent recognized by the appellate court in *Troxel*.⁸ 465 F.2d 1259 n.5.

⁷ The amended complaint alleged, in pertinent part:

[Second Count] [R]etention by Carter of the sums paid to Carter by Zenith and the other members of the within class pursuant to the said invalid patent is inequitable and would constitute the unjust enrichment of Carter in the amount of \$130 million

[Third Count] The invalidity of the Carter patent constitutes a failure of consideration and entitles the Plaintiff and the other class members to restoration of all moneys paid by virtue of the existence of said patent.

[Fourth Count] The lack of knowledge [of the invalidity of the patent] on the part of Zenith and the other members of the class constituted a mistake as to a material fact. Said mistake entitles Zenith and other class members to be reimbursed for all sums paid by them to Carter by virtue of the existence of said patent as a result of said mistake of material fact.

⁸ Count V of Zenith's complaint reads as follows:

Each of these [above-mentioned] omissions and misrepresentations constituted a fraud on the Patent Office, and en-

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Appendix A

Judge Stern, who had replaced Judge Whipple by normal rotation, reconsidered the prior class certification after Zenith had amended its complaint. He determined that the asserted class was an improper mix of licensees and mere purchasers and concluded that Zenith was not an appropriate class representative of either group. *Zenith Laboratories, Inc. v. Carter-Wallace, Inc.*, 64 F.R.D. 159 (D. N.J. 1974). Zenith was ordered to amend its pleading to eliminate class allegations, and the case continued as a private action.

Thereafter, the court entered summary judgment in favor of Carter because it could find no theory upon which Zenith was entitled to recover its excess payments to Carter. Zenith appeals from both the judgment against it and the denial of class status.

II.

Zenith's contention that Judge Whipple's certification of the class constituted the "rule of the case" and should

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titles the Plaintiff and other class members to the return of moneys paid by them to Defendant by reason of said patent.

Carter contends that Counts II through V are covered by the release executed in the earlier infringement suit. Under that release, Carter would claim protection from all claims by Zenith except the one then pending in the instant case (present Count I). However, we read the release to protect Carter from the assertion of only those claims which were or could have been included within Count II of the antitrust counterclaim in the infringement suit (i.e., combination with Lederle to tie an unpatented article to a patented one) or which concerned price-fixing under Section 2 of the Clayton Act. Other theories of recovery are not reached by the release, and Zenith therefore was free to assert them here.

Appendix A

not have been overturned is answered by Fed. R. Civ. P. 23(c)(1), which provides: "An order under this subdivision may be conditional, and may be altered or amended before the decision on the merits." This court, in *Interpace Corp. v. Philadelphia*, 438 F.2d 401 (3d Cir. 1971), declared that a district court is obliged to take cognizance of a changed factual situation and may alter an earlier order accordingly. Moreover, the Committee Notes on Rule 23 envision modification of a class certification "if, upon full development of the facts, the original determination appears unsound."

Zenith insists that no new facts had been developed to justify a redetermination under Rule 23(c)(1). We disagree. It is undisputed that the prior action, which was pending when the first class determination was made, had been settled at the time of the second determination. In addition, Zenith had added four counts to its complaint, at least one of which was not even anticipated in its first complaint. Judge Stern also believed that Judge Whipple's class certification might have been based upon the erroneous assumption that Zenith was an express licensee of Carter. These considerations warranted the reevaluation of the original class certification.

We affirm the district court's denial of Zenith's motion for class certification because the district court did not err in holding that Zenith is an improper class representative. If Zenith were allowed to represent the alleged class, Carter could assert defenses against it which would not be applicable to the class as a whole, such as *res judicata* based on the disposition of Zenith's counterclaims in the earlier suit. Since these unique defenses could conceivably become the focus of the entire litigation and divert much of Zenith's attention from the suit as a whole, the remain-

Appendix A

ing members of the class could be severely disadvantaged by Zenith's representation. *Koos v. First National Bank*, 496 F.2d 1162, 1164-65 (7th Cir. 1974).

III.

In our discussion of the entry of summary judgment against Zenith, we must first treat Zenith's claim that it is a licensee. The district court concluded that Zenith was a mere bulk purchaser, rather than a licensee, and based its decision on that characterization of Zenith's status. We believe that Zenith would not be entitled to recover royalties even if it were a licensee; as a mere purchaser, its claim would be even weaker. Thus, we need not decide whether Zenith is an implied or express licensee or whether it is an outright purchaser,⁹ for Zenith cannot

⁹ The United States Supreme Court distinguished sales from licenses in *United States v. General Electric Co.*, 272 U.S. 476, 489-90 (1926):

It is well settled . . . that where a patentee makes the patented article and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights. But the question is a different one which arises when we consider what a patentee who grants a license to one to make and vend the patented article may do in limiting the licensee in the exercise of the right to sell.

* * *

He does not thereby sell outright to the licensee the articles the latter may make and sell, or vest absolute ownership in them. He restricts the property and interest the licensee has in the goods he makes and proposes to sell.

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Appendix A

succeed under either construction of its relationship with Carter.

Let us assume, *arguendo*, that Zenith is indeed a licensee in order to demonstrate that even the strongest case for Zenith cannot result in a recovery. First, since Count I derives from the district court's decision in *Troxel*, which was reversed on appeal, it must fall if we adopt the appellate court's contrary position. Suits such as this one have recently been disposed of on the authority of the appellate decision in *Troxel*, 465 F.2d 1253. *Kraly v. National Distillers and Chemical Corp.*, 502 F.2d 1366 (7th Cir. 1974); *Ransberg Electro-Coating Corp. v. Spiller & Spiller, Inc.*, 489 F.2d 947 (7th Cir. 1973).

The reasoning of the *Troxel* appellate court is persuasive. Federal patent policy in favor of early adjudications of invalidity, it argued, would be defeated by allowing recovery of past royalties:

[S]uch an interpretation of *Lear* would make it advantageous for a licensee to postpone litigation, enjoy the fruits of his licensing agreement, and sue for repayment of royalties near the end of the term of the patent.

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id. at 489-90 (cases omitted). *Accord*, *Agrashell Inc. v. Hammons Products Co.*, 479 F.2d 269, 279 (8th Cir. 1973), *cert. denied*, 414 U.S. 1022 (1973); *United States v. Masonite Corp.*, 316 U.S. 265, 277-78 (1941).

If Zenith were a mere purchaser, its claim of recovery of that portion of the purchase price attributable to the patent would be substantially undercut. As Corbin states: "Having made an article of commerce, a patentee is privileged to withhold it from sale at any price, or to offer it for sale at any price he wishes, however low or high." 6A Corbin, Contracts § 1410 at 246 (1962).

Appendix A

465 F.2d at 1257. Furthermore, the prospect of refunding all royalties collected would constitute such a cloud over a licensed patent that patenting would be discouraged. Thus, *Troxel* adhered to the earlier ruling of the Sixth Circuit in *Drackett Chemical Co. v. Chamberlain Co.*, 63 F.2d 853 (6th Cir. 1933), that the obligation to pay royalties ends upon "eviction"¹⁰ from the license by an adjudication in a court of competent jurisdiction of invalidity of the underlying patent. However, a licensee is precluded from recouping royalties already paid.

We concur in the Sixth Circuit's decision in *Troxel* and must, therefore, affirm the district court's holding that Count I fails to state a cause of action upon which relief can be granted.

Counts II through IV are grounded in state contract law rather than federal patent policy. *Luckett v. Delpark*, 270 U.S. 496, 502-503 (1926).¹¹ They attempt to develop a cause of action by use of equitable theories which have heretofore been successful only as defenses to a licensor's suit for royalties. Their common basis is the concept that a licensee is "evicted" from the license at the time of adjudication of invalidity of the underlying patent.¹² By

¹⁰ "Eviction" occurs when the patent is adjudged invalid so that there is a complete failure of consideration. 4 Walker, Patents § 404 (Supp. 1975).

¹¹ See also *Scherr v. Difco Laboratories*, 401 F.2d 443, 445 (6th Cir. 1968); *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 176 F.2d 799, 807 (1st Cir. 1941) (dictum), *aff'd*, 339 U.S. 827 (1950). An unrelated holding of *Hazeltine* was overruled in *Lear v. Adkins*, *supra*.

¹² *Scherr*, *supra*; *Hazeltine*, *supra* at 807-808 (applied only to exclusive licensees); *Drackett*, *supra*; 4 Walker, Patents § 404 (2d ed. 1965).

Appendix A

the same token, no eviction occurs *until* such adjudication. *Headley Good Roads Co. v. Barber Asphalt Paving Co.*, 292 F. 119 (3d Cir. 1923).¹³

Since the foregoing counts are predicated on state law, we must determine which state's law shall be applied. We note that this case is cognizable in federal court only because of diversity of citizenship. We are compelled to follow the choice of law rules of New Jersey, the forum state. *Klaxon Co. v. Stentor Elec. Mfg. Co.*, 313 U.S. 487 (1941). The contract took effect upon receipt of the sales agreement in New York, where Carter maintains its corporate headquarters. Therefore, New Jersey courts would most likely give effect to the following provision in the sales contracts between Zenith and Carter:

The law of New York shall apply and govern with respect to the construction and enforcement of this agreement.

See Monsanto Co. v. Alden Leeds, Inc., 326 A.2d 90, 95 (N.J. Super. 1974); *Shotwell v. Dairymen's League Cooperative Ass'n.*, 37 A.2d 420, 422 (N.J. Dist. Ct. 1944).

This provision conceivably could be construed to require the application of New York choice of law rules, not necessarily the substantive law applicable to the issues before us. However, New Jersey courts and this court, applying New Jersey choice of law rules in *Farris Engineering Corp. v. Service Bureau Corp.*, 406 F.2d 519 (3d Cir. 1969) (per curiam), have held that by such a contrac-

¹³ See also *Drackett, supra*, 63 F.2d at 854; *McKay v. Smith*, 39 F. 556 (1st Cir. 1889); 14 Business Organizations—Patents § 2.15 (1974); 4 Walker, Patents § 404 at 619 (2d ed. 1965).

Appendix A

tual provision the parties intended that the substantive law of the specified state would govern.

Our inquiry here falls within the terms of the foregoing contractual provision. We are concerned with the effect of patent invalidity upon payments made pursuant to the contract; thus, we are in effect deciding whether or not to enforce the agreement. In our consideration we apply New York law to state law counts of Zenith's complaint.

The United States Court of Appeals for the First Circuit construed New York cases to hold the defense of eviction available only to an exclusive licensee.¹⁴ Under this reading of New York law, Zenith, as a non-exclusive licensee, would not be able to raise eviction as a defense to royalties which fell due after Carter's patent was held invalid, much less use it offensively, as here, to recoup royalties paid before the adjudication of invalidity. New York cases also hold that exclusive licensees are liable for royalties under an admittedly invalid patent until an adjudication of invalidity is rendered. *Herzog v. Heyman*, 151 N.Y. 587, 45 N.E. 1127 (1897), and *Marston v. Swett*, 82 N.Y. 526 (1880), cited in *Victory Bottle Capping Machine Co. v. O & J Machine Co.*, 280 F. 753, 759-60 (1st Cir. 1922). Certainly, if an exclusive licensee must await adjudication of patent invalidity before it is deemed to be evicted from its license, a non-exclusive licensee, as Zenith claims to be, has less justification to claim an eviction before such adjudication.

In sum, Zenith could have used the theories contained in Counts II through IV as defenses, assuming it was a

¹⁴ *Hazeltine, supra*, 176 F.2d at 808. It so interpreted the leading New York case in the area, *Marston v. Swett*, 82 N.Y. 526 (1880).

Appendix A

licensee, had Carter sued for royalties due *after* its patent had been declared invalid. It could not have asserted them successfully in an action by Carter for royalties owed *before* the adjudication. *A fortiori*, it cannot now assert these theories in an action to recover royalties actually paid before an adjudication of invalidity.

Finally, we reach Count V, which alleges a right to recovery based on Carter's claimed fraud on the Patent Office. Zenith has consistently denied in the district court and in this court that Count V derives from an antitrust theory.¹⁵ *Zenith Laboratories, Inc. v. Carter-Wallace, Inc.*, 64 F.R.D. 159, 168 n.4 (D. N.J. 1974). Rather, Zenith characterizes its claim as one based on common law fraud, which it contends was also the basis of the cases mentioned as still viable in the first *Troxel* appellate opinion.

The cases cited in *Troxel* develop essentially two common law causes of action for fraud, neither of which applies to Zenith.¹⁶ First, where fraud is practiced directly on the licensee, for example, inducement by misrepresentation to enter into a licensing agreement, the licensee has a cause of action. *SCM Corporation v. Radio Corporation*

¹⁵ *Walker Process Equipment, Inc. v. Food Machinery and Chemical Corp.*, 382 U.S. 172, 177 (1965), is authority for the proposition that fraud on the Patent Office strips a patent of the exemption it would otherwise enjoy from antitrust laws. The cause of action recognized in *Walker* is not founded on the fraud itself but rather on an independent antitrust violation.

¹⁶ Another theory requires the Government to cancel a patent *ab initio* for fraud. When this is done, a licensee can recover past royalties on a claim of unjust enrichment. *United States v. Hartford-Empire Co.*, 73 F. Supp. 979 (D. Del. 1947); 14 Business Organizations-Patents § 7.09[2] (1974).

Appendix A

of America, 318 F. Supp. 433 (S.D. N.Y. 1972). Second, another legally cognizable claim is for unfair competition based on the inequitable advantage that one party gains from a fraudulently obtained patent which obstructs another party's efforts to develop and market a similar product. *Struthers Scientific and International Corp. v. General Foods Corp.*, 334 F. Supp. 1329 (D. Del. 1971); *Corning Glass Works v. Anchor Hocking Glass Corp.*, 253 F. Supp. 461 (D. Del. 1966). Zenith alleges neither that it was induced to enter a licensing agreement nor that it was prevented from realizing profits on its own drug invention. Thus, its bald assertion that it deserves to recover due to Carter's alleged fraud, not on it but on the Patent Office itself, does not state a claim on which relief can be afforded.¹⁷

We conclude, therefore, that Zenith has not stated a cause of action in any of the five counts of its amended complaint. The judgment of the district court will be affirmed.

A True Copy:

Teste:

*Clerk of the United States Court of Appeals
for the Third Circuit.*

¹⁷ Zenith also cites *Nashua Corp. v. RCA Corp.*, 307 F. Supp. 152 (D.N.H. 1969), *aff'd*, 431 F.2d 220 (1st Cir. 1970). There the district court found no fraud, and the Court of Appeals, accepting that finding as not clearly erroneous, did not reach the issue of recovery on the basis of fraud. Since the court did not address the question at issue here, *Nashua* is not authority for Zenith's position.

APPENDIX B

**Oral Opinion of the United States District Court for the
District of New Jersey, Rendered April 14, 1975.
(Hon. Herbert J. Stern)**

The Court has carefully considered the arguments of counsel and the numerous briefs which have been filed. The Court has had an opportunity to be fully familiar with this case, in the writing of an extensive opinion on the class action statute entitled "Zenith Laboratories, Inc., v. Carter-Wallace, Inc.," 64 Federal Rule Decisions 159 (1974).

For the reasons articulated in that opinion and which remain the law of this case, this Court continues to find that the plaintiff's attempt here to categorize itself as a licensee who paid royalties pursuant to a patent and a license thereafter granted to it by the defendant is spurious at best.

The fact of the matter is, and there is no factual dispute about it, other than the appellation which the plaintiff attempts to use, the fact of the matter is that the plaintiff in this case is nothing more than a common purchaser of Meproamate who happened to buy it in great bulk.

The plaintiff in this case stands in no different position than an ordinary citizen who walked into Carter-Wallace's laboratory and bought one pound or ten pounds of Meproamate. It just so happens that the plaintiff in this case bought a great deal more. The fact of the matter is that there never was any license agreement signed nor any royalty agreed upon, so much this Court has already held in the Rule 23 decision, and this Court continues to adhere to that ruling.

Appendix B

That being the case, the question now arises whether or not under any conceivable theory of law a mere purchaser of a patented item has a right to sue the holder of the patent if the patent is thereafter declared to be invalid for any reason. This Court holds that it does not.

There are cases in which, as the United States Supreme Court has held, a patentee may sue to be relieved of future obligations arising under its patent agreement if after the signing of that agreement the patent, itself, is subsequently declared to be invalid. That much is clear. There are also cases in which courts have held that a licensee of one who holds a patent may sue to recover past royalty payments if the license agreement was, itself, the product of the fraud; that is, if the licensee was induced to enter into the license agreement in the actual belief that the patent holder had a valid patent when in fact, as known to the holder of the patent, the patent, itself, was procured by a fraud committed on the Patent Office. For that proposition see Footnote 5 in the Court of Appeals opinion in *Troxel Manufacturing Company v. Schwinn Bicycle Company*, 465 F.2d 1253 (1972).

But the plaintiff in this case, which is not a licensee, which never signed such a licensing agreement, which never paid royalties as a licensee, in the mistaken belief or otherwise that the valid patent existed, does not share in the right of such a recovery.

It is clear, at least to this Court, that the plaintiff in this case is nothing other than a purchaser who bought in bulk and in no sense is it a licensee.

This Court sees no reason why this drug company—that is, Zenith—which happened to buy Meproamate in

Appendix B

bulk from another drug company—that is, Carter-Wallace—should itself reap the undue benefit and unjust enrichment which may have been occasioned by the fact that Carter-Wallace's patent has thereafter been held to be invalid. Such a recovery might well strip Carter-Wallace of some unjust enrichment. All it would ultimately do would be to shift that enrichment over to Zenith Laboratories which has already passed any increased price by reason of the patent on to the consuming American public. The end result of according plaintiff the relief it seeks would be to permit it a double or a triple profit without recompensing those who actually paid whatever attendant costs there may be by reason of the existence of the patent later found to be invalid.

The Court is aware that this theory has been eschewed by the Supreme Court of the United States in deciding the question of the rights, privileges and obligations as between patentees and their licensees, but that is not to say that this is not a valid consideration which one may employ in determining the rights of consumers in bulk or, rather, middlemen who buy in bulk who do not have any license agreements and the holders of patents and ultimately the consumer who must pay whatever costs are attendant on an improperly secured patent.

In any event, the decision does not turn on this precise consideration. The fact of the matter is that Carter-Wallace was never or never did have a licensing agreement with Zenith. And if this Court were to find Zenith Laboratories had the right of a cause of action against Carter-Wallace based on the mere fact that Zenith Laboratories or so it claims had to pay more for the Meproamate by reason of the patent that Carter-Wallace enjoyed, it is very difficult for this Court to say why it

Appendix B

should not also accord a cause of action to whomever purchased the Meproamate from Zenith. In other words, what would this Court say if a purchaser of Meproamate from Zenith brought a cause of action against Carter-Wallace alleging that the Meproamate it purchased from Zenith cost that purchaser more because it cost Zenith more because Carter-Wallace had improperly secured a patent?

In other words, it seems to this Court that if plaintiff is correct in its theory, its theory is as good for those who purchased from itself as it is for Zenith who purchased from Carter-Wallace.

In any event, there is no authority either under the law of New Jersey, which the plaintiff will have this Court look to in the first instance, or under the laws of the United States to accord Zenith the relief which it seeks under any count in this complaint. And, accordingly, Zenith as a mere purchaser and not a licensee, has no right to recover under any theory advanced.

Summary judgment will be granted in favor of Carter-Wallace and against Zenith Laboratories.

APPENDIX C

**Judgment of the United States Court of Appeals for the
Third Circuit, dated February 10, 1976**

UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT

No. 75-1570

ZENITH LABORATORIES, INC., on behalf of itself and
all others similarly situated,

vs.

CARTER-WALLACE, INC.,
Zenith Laboratories, Inc., Appellant.

(D.C. Civil Action No. 368-72)

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

Present: VAN DUSEN, ADAMS and ROSENN, *Circuit Judge*

This cause came on to be heard on the record from the
United States District Court for the District of New Jer-
sey and was argued by counsel.

Appendix C

On consideration whereof, it is now here ordered and
adjudged by this Court that the judgments of the said
District Court, filed October 29, 1974 and dated April 24,
1975, be and the same are hereby affirmed. Costs taxed
against the appellant.

ATTEST:

THOMAS F. QUINN
Clerk

February 10, 1976

Certified as a true copy and issued in lieu
of a formal mandate on March 12, 1976.

Test:

THOMAS F. QUINN
Clerk, United States Court of Appeals
for the Third Circuit

Pursuant to Rule 39(d), F.R.A.P.,
and the Clerk's Ruling on Costs
dated April 19, 1976, costs taxed in
favor of appellee added hereto on
April 29, 1976, as follows:

Brief and Appendix costs
advanced to appellant \$1345.61

APPENDIX D

**Order of the United States Court of Appeals for the
Third Circuit Denying Petition for Rehearing
dated, March 4, 1976**

UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT

No. 75-1570

ZENITH LABORATORIES, INC.,

Petitioner,

v.

CARTER-WALLACE, INC.,

Respondent.

SUB PETITION FOR REHEARING

Present: SEITZ, *Chief Judge*, VAN DUSEN, ALDISERT, ADAMS,
GIBBONS, ROSENN, HUNTER, WEIS, and GARTH, *Circuit
Judges*

The petition for rehearing filed by Zenith Laboratories, Inc., Petitioner, in the above entitled case having been submitted to the judges who participated in the decision of this court and to all the other available circuit judges of the circuit in regular active service, and no judge who concurred in the decision having asked for rehearing,

Appendix D

and a majority of the circuit judges of the circuit in regular active service not having voted for rehearing by the court in banc, the petition for rehearing is denied.

By the Court,
(Illegible)

Judge

Dated: March 4, 1976